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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS**DOCKETED**

OCT 30 2007

MIKE GLEASON, Chairman
 WILLIAM A. MUNDELL
 JEFF HATCH-MILLER
 KRISTIN K. MAYES
 GARY PIERCE

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF FAR
 WEST WATER & SEWER, INC., AN ARIZONA
 CORPORATION, FOR AUTHORITY (1) TO ISSUE
 EVIDENCE OF INDEBTEDNESS IN AN AMOUNT
 NOT TO EXCEED \$25,215,000 IN CONNECTION
 WITH (A) THE CONSTRUCTION OF SEWER
 SYSTEM INFRASTRUCTURE IMPROVEMENTS
 AND (B) REPAYMENT AND CONSOLIDATION OF
 EXISTING DEBT; AND (2) TO ENCUMBER ITS
 REAL PROPERTY AND PLANT AS SECURITY FOR
 SUCH INDEBTEDNESS.

DOCKET NO. WS-03478A-07-0442

DECISION NO. 69950**ORDER**

Open Meeting
 October 23 and 24, 2007
 Phoenix, Arizona

BY THE COMMISSION:

On July 26, 2007, Far West Water & Sewer, Inc. ("Far West" or "Company") filed with the Arizona Corporation Commission ("Commission") an application requesting authorization to (1) issue evidence of indebtedness in an amount not to exceed \$25,215,000; and (2) encumber its real property and utility plant as security for such indebtedness. The application states that the purpose of the debt is to construct additional plant and infrastructure improvements to the Company's sewer system necessary to comply with two Consent Orders between the Company and the Arizona Department of Environmental Quality ("ADEQ"), and for the repayment and consolidation of existing long-term and short-term debt.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

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2 1. Far West is a public service corporation engaged in providing water and sewer utility
3 services to the public in unincorporated portions of Yuma County, Arizona. As of December 31,
4 2006, Far West provided sewer utility services to approximately 6,800 permanent sewer connections
5 and 14,600 permanent water service connections, pursuant to authority granted by the Commission.

6 2. On July 26, 2007, Far West filed an application requesting authorization to (1) issue
7 evidence of indebtedness in an amount not to exceed \$25,215,000; and (2) encumber its real property
8 and utility plant as security for such indebtedness.

9 3. On August 30, 2007, Far West filed a Notice of Filing Certification of Publication.

10 4. On September 26, 2007, Staff filed its Staff Report in this matter, recommending
11 approval of the financing request.

Purpose of the Financing

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13 5. The Company estimates the total costs of sewer system improvements necessary to
14 comply with the ADEQ Consent Orders (dated March 13, 2006 and October 31, 2006) to be
15 \$17,365,765. The Company plans to use a portion of the proceeds of the proposed financing to
16 complete the improvements.

17 6. The Company plans to use a portion of the proceeds from the financing to retire an
18 existing long-term loan from the Water Infrastructure Financing Authority ("WIFA") obtained in
19 1999, which had a principal balance at December 31, 2006 of \$4,686,466. The proceeds of the
20 WIFA loan were used to finance the construction of the Company's water treatment plant. The
21 lender for the proposed new debt requires repayment of the WIFA loan so that it may hold a first-
22 position encumbrance to secure repayment of the new debt.

23 7. The Company also plans to use a portion of the financing proceeds to retire short-term
24 debt incurred in December 2006 in order to undertake emergency sewer plant upgrades and
25 improvements necessary to comply with requirements imposed by ADEQ in the Consent Orders.
26 The principal total amount of the short-term debt is \$17,735,000, and must be repaid, along with
27 accrued interest, in December 2007.
28

1 8. A portion of the loan proceeds will also be used to establish a \$0.9 million debt service
2 reserve and to pay \$1.3 million in issuance costs.

3 Terms of the Financing

4 9. The Industrial Development Authority of the County of Yuma ("Yuma IDA") adopted
5 a resolution on June 26, 2007, granting preliminary approval for it to issue tax-exempt revenue bonds
6 in an aggregate principal amount not to exceed \$32,500,000 ("IDA Bonds"), and to loan the proceeds
7 to Far West for the purposes of the proposed financing as described in the Company's financing
8 request. The application states that the IDA Bonds will be sold or placed by the bond underwriter
9 Crews and Associates, Inc., of Little Rock, Arkansas, and the Yuma IDA will in turn loan the
10 proceeds from the sale or placement of the IDA Bonds to Far West. Far West will enter into a loan
11 agreement with the Yuma IDA that grants security interests in the Company's assets to secure
12 repayment.

13 10. The IDA Bonds will have a face value not to exceed \$25,215,000 and carry an
14 anticipated weighted average coupon rate of 6.27 percent. The IDA Bonds will be repaid in a term
15 not to exceed 30 years.

16 Engineering Analysis

17 11. Staff reviewed the material cost estimates of Far West's sewer construction budget,
18 and concluded that the cost estimates appear reasonable and appropriate. No ratemaking treatment
19 should be inferred from Staff's analysis.

20 Financial Analysis

21 12. Staff's financial analysis to determine the effects of the proposed financing used the
22 Company's financial results for the year ended December 31, 2006.

23 13. Staff's analysis indicates that the proposed debt will result in a pro forma debt service
24 coverage ratio ("DSC")¹ of 1.15 and a times interest earned ratio ("TIER")² of 0.50.

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26
27 ¹ DSC represents the number of times internally generated cash will cover required principal and interest payments on
long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

28 ² TIER represents the number of times earnings will cover interest expense on long-term debt. A TIER greater than 1.0
means that operating income is greater than interest expense.

14. Staff states that a TIER of less than 1.0, while not sustainable in the long term, does not mean that debt obligations cannot be met in the short term, and that the pro forma DSC of 1.15 shows that Far West would have adequate cash flow to meet all obligations.

Compliance Issues

15. There are no outstanding compliance issues for the Company.

Staff Recommendations

16. Staff recommends that the Commission approve Far West's application for authorization to issue evidence of indebtedness not to exceed \$25,215,000 and to encumber real property and plant assets to serve as collateral for the proposed IDA Bond offering.

17. Staff further recommends that the interest rate on the proposed \$25,215,000 bond issuance should not exceed 6.5 percent.

18. Staff further recommends that the Commission authorize Far West to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

19. Staff further recommends that Far West file the executed bond/loan documents with Docket Control, as a compliance item in this case, within 90 days of this Decision.

Conclusion

20. It is reasonable, consistent with sound financial practices, and in the public interest to grant Far West the requested financing authority, including the authority to encumber assets to collateralize a bond offering in order to secure financing for the purposes set forth in the application.

21. Staff's recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. Far West is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

2. The Commission has jurisdiction over Far West and the subject matter of the request.

3. Notice of the financing was provided in accordance with law.

4. Staff's recommendations set forth in Findings of Fact Nos. 16-19 are reasonable and should be adopted.

5. The borrowing under the IDA Bond offering approved herein is for lawful purposes

1 within Far West's corporate powers, is compatible with the public interest, with sound financial
2 practices, and with the proper performance by Far West of service as a public service corporation,
3 and will not impair Far West's ability to provide service.

4 6. The financing approved herein is for the purposes set forth in Far West's request filed
5 on July 26, 2007, is reasonably necessary for those purposes, and such purposes are not, wholly or in
6 part, reasonably chargeable to operating expenses or to income.

7 **ORDER**

8 IT IS THEREFORE ORDERED that Far West Water & Sewer, Inc. is hereby granted
9 authority to issue evidence of indebtedness for the purposes stated in the application not to exceed
10 \$25,215,000, and with an interest rate not to exceed 6.5 percent, by entering into a loan agreement
11 with the Industrial Development Authority of the County of Yuma to encumber its real property and
12 plant assets to serve as collateral for its receipt of the proceeds of the proposed Industrial
13 Development Authority of the County of Yuma bond offering as described in the application.

14 IT IS FURTHER ORDERED that Far West Water & Sewer, Inc. is hereby authorized to
15 engage in any transactions and to execute or cause to be executed any documents so as to effectuate
16 the authorizations requested with the application.

17 IT IS FURTHER ORDERED that such authority is expressly contingent upon Far West Water
18 & Sewer, Inc.'s use of the proceeds for the purposes set forth in its application.

19 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
20 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
21 proceeds derived thereby for purposes of establishing just and reasonable rates.

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IT IS FURTHER ORDERED that Far West Water & Sewer, Inc. shall file with the Commission's Docket Control, as a compliance item in this docket, within ninety days of this Decision, copies of the executed bond and loan documents memorializing the authorized transactions.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

Lawrence H. McLean
CHAIRMAN

[Signature]
COMMISSIONER

[Signature]
COMMISSIONER

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COMMISSIONER

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COMMISSIONER

IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 30th day of Oct., 2007.

Dean S. Miller
DEAN S. MILLER
INTERIM EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

TW:db

1 SERVICE LIST FOR: FAR WEST WATER & SEWER. INC.

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3 DOCKET NO.: WS-03478A-07-0442

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